

Message Text

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ACTION EUR-12

INFO OCT-01 EA-06 ISO-00 EURE-00 SP-02 AID-05 EB-07 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 PA-01 PRS-01 /093 W

----- 116222

P R 181550Z JUL 75

FM AMEMBASSY ROME

TO SECSTATE WASHDC PRIORITY 2160

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY THE HAGUE

AMEMBASSY LONDON

RUFHRO /AMCONGEN MILAN 3490

AMCONGEN NAPLES

AMEMBASSY PAIRS

USMISSION OECD PARIS

AMEMBASSY TOKYO

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PASS TREASURY AND FRB

E.O. 11652: N/A

TAGS: EFIN, IT

SUBJECT: ITALIAN EXCHANGE MARKET DEVELOPMENTS

1. SUMMARY. SINCE MID-JUNE LOCAL ELECTIONS, LIRA HAS WEAKENED IN EXCHANGE MARKET. BOP DEFICIT IN LAST HALF JUNE WAS ABOUT \$517 MILLION AND BOI LOST ABOUT \$300 MILLION IN INTERVENTION DURING FIRST 17 DAYS OF JULY. CUMULATIVE RECORDED DEFICIT FOR FIRST SIX MONTHS WAS APPROXIMATELY \$510 MILLION. LIRA HAS DEPRECIATED

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SLIGHTLY IN EXCHANGE MARKET ON WEIGHTED AVERAGE BASIS,

WITH LOSS MAINLY AGAINST STRONGER DOLLAR. END SUMMARY.

2. FOLLOWING SURPLUS OF ABOUT \$452 MILLION IN FIRST HALF OF JUNE, ITALIAN BALANCE OF PAYMENTS MOVED INTO RATHER LARGE DEFICIT IN SECOND HALF AMOUNTING TO ABOUT \$517 MILLION. NO DATA AVAILABLE FOR TRADE OR OTHER ITEMS ABOVE THE LINE BUT ADVERSE EFFECT OF LARGE COMMUNIST GAINS IN LOCAL ELECTIONS ARE BELIEVED TO HAVE WORSENERD CAPITAL ACCOUNT. IN PERIOD JULY 1-17 BOI LOST ABOUT \$300 MILLION FROM EXCHANGE MARKET INTERVENTION. HEAD OF BOI FOREIGN EXCHANGE OPERATIONS, ERCOLANI, SAID THAT HE HAD IMPRESSION THAT ITALIAN COMMERCIAL BANKS MAY HAVE REDUCED THEIR FOREIGN DEBT DURING THIS PERIOD, IN WHICH CASE BALANCE OF PAYMENTS DEFICIT WOULD BE LESS THAN IT APPEARED. ERCOLANI ATTRIBUTED RELATIVE WEAKNESS OF LIRA IN MARKET PARTLY TO RESURGENCE OF DOLLAR AGAINST MOST CURRENCIES. HE THOUGHT THAT PURCHASES OF DOLLARS BY USSR IN ANTICIPATION OF LARGE GRAIN PURCHASES FROM US MIGHT BE ONE IMPORTANT FACTOR BEHIND STRENGTH OF DOLLAR, ALONG WITH INTEREST RATE MOVEMENTS FAVORING CAPITAL FLOWS TO US.

3. PRELIMINARY MONETARY MOVEMENTS DATA FOR MONTH OF JUNE SHOW MODEST DEFICIT OF \$64.9 MILLION BOTH FOR RECORDED DEFICIT AND FOR DEFICIT ADJUSTED TO REMOVE COMPENSATORY EUROMARKET LOAN TRANSACTIONS FROM CAPITAL ACCOUNT. (THERE WERE NO RECEIPTS OF REPAYMENTS OF EUROMARKET LOANS DURING JUNE.) JUNE DEFICIT WAS FINANCED BY DECREASE IN CONVERTIBLE CURRENCY HOLDINGS OF \$42.8 MILLION, INCREASE IN SHORT-TERM LIABILITIES BY \$27.1 MILLION, DECREASE IN NET MEDIUM AND LONG-TERM LIABILITIES BY \$118.2 MILLION, AND DECREASE IN SDR HOLDINGS BY \$1.4 MILLION. COMMERCIAL BANKS' NET FOREIGN DEBT INCREASED BY \$111.8 MILLION.

4. FOR FIRST HALF 1976 BALANCE OF PAYMENTS WAS IN DEFICIT BY \$509.5 MILLION ON RECORDED BASIS AND \$89.5 MILLION ON ADJUSTED BASIS. (THERE WERE \$420 MILLION IN REPAYMENTS OF EUROMARKET COMPENSATORY LOANS DURING THIS PERIOD.) DEFICIT WAS FINANCED BY DECREASE IN LIMITED OFFICIAL USE

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BOI FOREIGN EXCHANGE ASSETS OF \$232.1 MILLION, DECREASE IN SDR HOLDINGS OF \$49.3 MILLION, INCREASE IN BOI SHORT-TERM LIABILITIES OF \$13.0 MILLION, DECREASE IN BOI NET MEDIUM AND LONG-TERM LIABILITIES OF \$225.6 MILLION, AND INCREASE IN NET SHORT-TERM BORROWINGS OF COMMERCIAL BANKS OF \$440.7 MILLION.

5. SUMMARY PRELIMINARY BALANCE OF PAYMENTS FOR
FIRST FIVE MONTHS OF 1975 (PAYMENTS BASIS EXCEPT FOR
TRADE ACCOUNT SHOWING CUSTOMS DATA WITH IMPORTS ROUGHTLY
CONVERTED TO FOB BASIS).

5 MONTHS 1975

(MILLIONS OF DOLLARS)

EXPORTS	13,544	
IMPORTS	13,867	
TRADE BALANCE	3323	
SERVICES/UN. TRANSFERS	-396	
CURRENT ACCOUNT	-719	
CAPITAL ACCOUNT (EXCL. E-MKT)	949	
ADJUSTMENTS	-248	
DEFICIT, ADJUSTED	-18	

6. ON JULY 17 FOLLOWING FINANCIAL RATES PREVAILED;

LIRA SPOT EXCHANGE RATE WAS 649.625 LIRE PER DOLLAR,
THREE-MONTH FORWARD RATE WAS 659.875 LIRE PER DOLLAR,
WEIGHTED AVERAGE DEVALUATION OF LIRA, ACCORDING
TO BOI INDEX, WAS 20.89 PERCENT COMPARED TO FEBRUARY
9, 1973 BASE PERIOD, BLACK MARKET RATE IN MILAN
WAS 680 LIRE PER DOLLAR, THREE-MONTH EUROLIRA
INTEREST RATE WAS 12 7/8 PERCENT, LIRA INTERBANK
FORTY-EIGHT HOUR RATE WAS 9.25 PERCENT AND LIRA INTERBANK
THREE-MONTH RATE WAS 9.9375 PERCENT.VOLPE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: FOREIGN EXCHANGE, LIRA, BALANCE OF PAYMENTS DEFICITS, BALANCE OF PAYMENTS DATA
Control Number: n/a
Copy: SINGLE
Draft Date: 18 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975ROME10406
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750249-0101
From: ROME
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750742/aaaablng.tel
Line Count: 140
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 23 APR 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 APR 2003 by ShawDG>; APPROVED <24 APR 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: ITALIAN EXCHANGE MARKET DEVELOPMENTS
TAGS: EFIN, IT
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006